



NAVAJO GENERATING STATION – KAYENTA MINE COMPLEX PROJECT ENVIRONMENTAL COMPLIANCE QUARTERLY STATUS UPDATE

MARCH 2014 – SEPTEMBER 2014

1. Introduction

The Navajo Generating Station (NGS) plant lease, and other grants of right-of-way (ROW) associated with NGS power generation and distribution begin to expire on December 22, 2019. A variety of Federal actions and approvals, including but not limited to approval of the plant lease amendment, grants of ROW, and approval of a life-of-mine plan permit revision for the Kayenta Mine Complex (KMC), must occur in order to ensure continued operation of the NGS beyond December 22, 2019 through December 22, 2044. These Federal actions will require compliance with the National Environmental Policy Act (NEPA), the Endangered Species Act (ESA), and the National Historic Preservation Act (NHPA), and other applicable statutes.

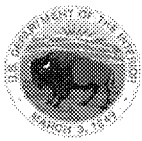
The Department of the Interior, with the Bureau of Reclamation (Reclamation) as lead Federal agency for completing all of the environmental compliance requirements for the proposed NGS-KMC Project (Project), is preparing an environmental impact statement (EIS) to cover these Federal actions. The Office of Surface Mining Reclamation and Enforcement-Western Region (OSMRE) and Bureau of Indian Affairs-Navajo Region (BIA) are Key Cooperating Agencies due to the nature of the Federal actions over which they have jurisdiction. The Project proponents are the Salt River Project Agricultural Improvement and Power District (SRP), which is a co-owner and the operator of NGS, and Peabody Western Coal Company (PWCC), which owns and operates the KMC (collectively, referred to as the Project Proponents). Appendix A provides a brief Project Background summary.

This Project status update report covers the period March 2014 through September 2014. Future reports will be produced quarterly starting with the fourth quarter of 2014. Please contact either Mr. Russ Callejo (303-445-2918 or rcallejo@usbr.gov) or Ms. Sandy Eto (623-773-6254 or seto@usbr.gov) with any questions concerning the content of these reports.

2. Reporting Period Accomplishments

- **Project Schedule:** The Project schedule was revised in June 2014, showing a revised Project completion date of Fall 2017. A milestone schedule is provided in Appendix B.
- **Government to Government Tribal Consultations:** Reclamation held initial government-to-government tribal consultation meetings with the Navajo Nation on March 31, 2014; the ten tribes with Central Arizona Project (CAP) water allocations on May 15, 2014; the Hopi Tribe on May 16, 2014; and the Kaibab Band of Paiute Indians on July 3, 2014. Future government-to-government tribal consultations will occur regularly at key stages of the Project, and as requested by tribal governments.
- **Project Management:** In late April 2014, a project management structure was established that promotes communication, collaboration, and coordination between Reclamation,

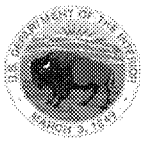




OSMRE and BIA. Consistent with the March 2013 Memorandum of Understanding (MOU), a five-member Project Management Team (PMT) led by Reclamation was formed to share information, streamline processes, and resolve Project-related issues. A schematic of the project management structure is provided in Appendix C.

- Kayenta Mine Life-of-Mine Permit Revision Application: On March 10, 2014, OSMRE notified the public of its Administrative Completeness Review of the Kayenta Mine life-of-mine mining plan permit revision application from PWCC for the Kayenta Mine. This permit revision application identifies new mining areas; submission of additional information; road realignment; and incorporation of surface facilities shared with the Black Mesa Mine. Under the permit revision, over 18,000 acres originally included as part of the Black Mesa Mine also would be incorporated into the Kayenta Mine permanent permit and the name of the permanent permit would be changed to the “Kayenta Mine Complex.”
- Project Website: A public website was launched in May 2014 to provide Project information at <http://ngskmc-eis.net/>. The website is updated and maintained by AECOM.
- Notice of Intent: A Notice of Intent (NOI) to prepare an EIS for the Project was issued in the Federal Register on May 16, 2014, officially kicking-off the EIS process and announcing public scoping meetings and locations.
- Public Scoping: Ten public scoping meetings were held June 10 through June 20, 2014, in the following Arizona locations: Window Rock, Forest Lake, Kayenta, Shonto, LeChee, and Tuba City on the Navajo Reservation; Kykotsmovi on the Hopi Reservation; and Page, Phoenix, and Marana. At the request of the Hopi Tribal Chairman, an additional scoping meeting was held August 14, 2014, on the Hopi Reservation on Third Mesa; two community outreach meetings also were held on First and Second Mesas on August 13, 2014. A notice announcing the additional scoping meeting, as well as reopening of the public scoping comment period through August 31, 2014, was published in the Federal Register on July 25, 2014. A scoping summary report is anticipated to be available in late October 2014.
- Cultural Resources: Cultural resources-related work associated with Class I survey, identifying additional surveys and studies that are required, and developing two Programmatic Agreements (one for the KMC and the other for NGS) are progressing in a timely manner. A Class II survey of the Black Mesa area is being proposed to validate survey work conducted for the initial life-of-mine permit. Ethnographic studies are proposed to be conducted as well. Work is proceeding to develop scopes-of-work for these efforts.
- Cooperating Agencies: Reclamation has invited all Federal action agencies to participate as cooperating agencies in the preparation of the EIS. The Navajo Nation and Hopi Tribe, whose trust assets would be directly affected by the proposed Project, also have





been invited to become cooperating agencies. In addition, 10 tribes with CAP water allocations have been invited to become cooperating agencies. The Central Arizona Water Conservation District, the operating entity for the CAP, also was invited to become a cooperating agency. Of the twenty-three entities invited to become a cooperating agency for the preparation of the EIS, eleven have accepted and one has declined. A meeting with all the cooperating agencies is scheduled for October 29, 2014, in Phoenix, Arizona, to discuss project status and next steps. Other governmental and quasi-governmental entities that would be affected by NGS-related decisions are eligible to participate as cooperating agencies as well. For current status of Cooperating Agencies that have an executed Memorandum of Understanding, please go to: <http://ngskmc-eis.net/about-the-eis/cooperating-agencies/>.

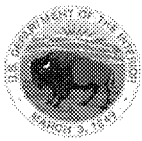
- **Alternatives Development:** With technical assistance from the National Renewable Energy Laboratory (NREL), a draft screening matrix was developed to objectively evaluate the numerous options received to date – through public and otherwise – for replacing the United States’ share of NGS (either partial or full replacement). The screening process will be used to develop reasonable alternatives to the preferred action for consideration in the EIS as required under NEPA. The draft screening matrix has been vetted through the PMT and project sponsors, with technical input from the operators of NGS and CAP. The goal is to develop preliminary alternatives for discussion with the cooperating agencies on October 29, 2014.

3. Related Events

- **Navajo Nation Approval of Lease Amendment:** On July 30, 2013, Navajo Nation’s President Ben Shelly signed legislation passed by the Navajo Nation Council, approving the NGS lease extension. The legislation extends the plant lease for an additional 25 years, from December 23, 2019 through December 22, 2044. The NGS co-owners must sign the lease extension. After Reclamation has completed NEPA, ESA, and NHPA compliance, the Secretary of the Interior may issue a Record of Decision (ROD).¹
- **EPA BART Ruling:** The Environmental Protection Agency’s final rule regarding Best Available Retrofit Technology (BART) for NGS was released on July 28, 2014. The rule mirrors the Supplemental Proposed Rule EPA issued in October 2013, which, in principle, adopted the Technical Work Group (TWG) Agreement “Better than BART” proposal submitted to EPA in July 2013. Members of the TWG include DOI (The Deputy Secretary’s Office, Reclamation, and Solicitor’s Office), SRP, Central Arizona Water Conservation District, Navajo Nation, Gila River Indian Community, Environmental Defense Fund, and Western Resource Advocates. The EIS will reflect compliance with this rule under the proposed project.
- **Hopi Tribe Leadership:** The Hopi Tribal Chairman election was held in November 2013; the new Chairman is Herman Honanie, former Vice-Chairman. He attended EPA’s Tribal Consultation on BART in December 2013.

¹ Separate RODs may be issued for the KMC-related actions; however, a final decision has not yet been made.





- **NGS Ownership Divestitures:** Currently, due to California and Nevada State laws, respectively, the Los Angeles Department of Water and Power (LADWP) and Nevada Energy (NV Energy) are divesting their ownership interests in NGS. Negotiations have been ongoing for several months; progress will be monitored and reported in future quarterly Project status updates.

4. Status of Federal Actions by Statute

Table 1 summarizes the status of compliance activities by major Federal environmental statute.

APPENDIX A – Project Background

NGS is a 2,250 megawatt (MW) coal-fired power plant located on land leased from the Navajo Nation in northern Coconino County near Page, Arizona. It has three 750 MW generating units, which provide baseload power to customers in Arizona, Nevada, and California. NGS has five co-owners, including SRP, which also operates the plant. In addition to SRP, which holds a 21.7% share, the other co-owners and their share of ownership are as follows: LADWP (21.2%); Arizona Public Service Co. (14.0%); NV Energy (11.3%); and Tucson Electric Power (7.5%). Moreover, the United States has an entitlement to 24.3% of the power produced at NGS, which is held by SRP for the use and benefit of the United States. Together, these six entities are referred to as the “NGS participants.” All six NGS participants have the same roles and responsibilities regarding major operation- and expenditure-related decisions which require consensus among and agreement of all six NGS participants.

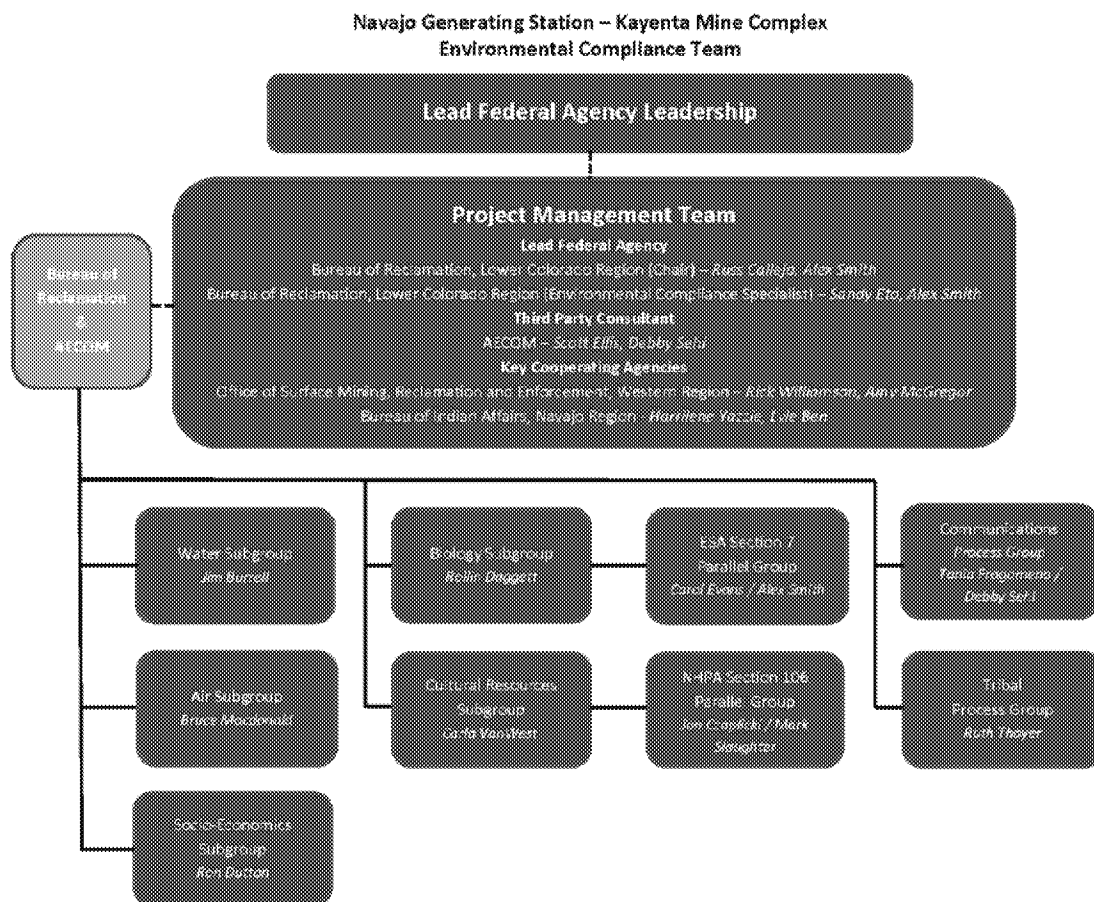
The power held by SRP for the use and benefit of the United States is managed by Reclamation on behalf of the Secretary of the Interior. This Federal share is used to deliver more than 1.5 million acre-feet of Colorado River water annually through the CAP facilities, from Lake Havasu in western Arizona to agricultural users, Indian Tribes, and millions of municipal water users in Maricopa, Pinal, and Pima counties, Arizona. Revenues from sale of the United States’ share of power not needed for CAP water deliveries (“surplus power”) are used to help pay annual repayment costs of CAP construction, and to fund Indian water settlement activities in central Arizona.

Coal used by NGS is supplied by PWCC’s Kayenta Mine, which is located about 80 miles southeast of NGS; the coal is delivered via electric railroad. The Kayenta Mine is located on about 44,073 acres of land leased within the boundaries of the Hopi Tribe and Navajo Nation Indian Reservations in northern Navajo County, near the town of Kayenta, Arizona. Both NGS and the Kayenta Mine are major contributors to the economies of the Navajo Nation, the Hopi Tribe, the city of Page, Coconino County, and the state of Arizona. NGS employs approximately 520 full-time people, and 1,000 temporary workers for yearly maintenance. About 85% of NGS employees are Native American. The Kayenta Mine employs 422 people, of which 87% live on either the Hopi or Navajo Reservation.



**APPENDIX B – Milestone Schedule**

Major Milestones	Target Completion Date	Actual Completion Date
Conduct Initial Tribal Consultations	Spring 2014	July 3, 2014
Notice of Intent	Spring 2014	May 16, 2014
Public Scoping Period	Summer 2014	August 31, 2014
Develop Draft EIS	Summer 2014 – Summer 2016	
Publish Draft EIS and Public Comment Period	Summer 2016	
Develop Final EIS	Summer 2016 – Summer 2017	
Publish Final EIS and 30-day Wait Period	Summer 2017	
Record of Decision	Fall 2017	

APPENDIX C – Project Management Team Graphic



NATIONAL ENVIRONMENTAL POLICY ACT	
Previous Work (Apr 2012 – Feb 2014)	<ul style="list-style-type: none"> Reclamation as lead agency, and OSMRE and BIA as key cooperating agencies (KCA), initiated preparation of an EIS for the Navajo Generating Station-Kayenta Mine Complex (NGS-KMC) Project, as well as activities associated with other environmental regulatory requirements. On behalf of the project proponents (PP) (Salt River Project on behalf of the NGS co-owners [SRP]; and Peabody Western Coal Company [PWCC]), SRP hired AECOM as a third party contractor to assist in preparation of the EIS; SRP also hired ENVIRON to conduct an ecological risk assessment (ERA), human health risk assessment (HHRA), and related air deposition modeling work. Reclamation hired USGS to peer review the PWCC groundwater model and verify springs inventory information. Reclamation invited all Federal action agencies, the Navajo Nation and Hopi Tribe to become Cooperating Agencies on the EIS.
Reporting Period (March 2014 – September 2014) Accomplishments	<ul style="list-style-type: none"> Reclamation's Notice of Intent to prepare an EIS (NOI) for the NKG-KMC Project was published in the <i>Federal Register</i> on May 16, 2014. The initial scoping period was May 16 through July 7, 2014; a <i>Federal Register</i> notice re-opening the public scoping period was issued on July 25; the extended scoping period closed August 31, 2014. A newsletter was distributed shortly before the NOI was published in the <i>Federal Register</i>. A project website has been developed (www.ngskmc-eis.net) which went "live" on May 17, 2014; it is maintained by AECOM. Reclamation's NGS-KMC Project EIS project manager was interviewed live on a local Hopi radio station on August 19, 2014. Ten public scoping meetings were held June 10-June 20, 2014, in the following Arizona locations: Window Rock, Forest Lake Chapter, Kayenta, Shonto, LeChee, and Tuba City on the Navajo Reservation; Kykotsmovi on the Hopi Reservation; and Page, Phoenix, and Marana. Meetings in Forest Lake Chapter, Kayenta, and Kykotsmovi satisfied Informal Conference requirements of the SMCRA. An additional scoping meeting was held on Third Mesa of the Hopi Reservation on August 14, 2014; two community outreach meetings also were held on First and Second Mesas, on August 13, 2014. Reclamation has begun developing alternatives criteria for evaluating potential project alternatives identified during the scoping period and through related efforts. Out of 21 governmental or quasi-governmental entities invited to become a Cooperating Agency on the EIS, 11 entities have accepted and one has declined. Arizona Game and Fish Department requested Cooperating Agency status during the public scoping comment period. For current status, and to view any of the MOUs executed to date, please go to: http://ngskmc-eis.net/about-the-eis/cooperating-agencies/.
Next Quarter's Projected Work	<ul style="list-style-type: none"> Alternatives criteria will be finalized, and Project alternatives will be evaluated for inclusion in the EIS. Future water demands will be identified for use in evaluating groundwater impacts; suitability of groundwater model(s) for use in evaluating groundwater withdrawal impacts will be identified by USGS.





ENDANGERED SPECIES ACT	
Previous Work (Apr 2012-Feb 2014)	<ul style="list-style-type: none">• FWS confirmed the Phoenix AES, Flagstaff Field Office, will take the lead role in this consultation; its New Mexico native fish staff also will participate.• A Section 7 call occurs monthly that includes FWS AES and NM ES staff, Reclamation, the KCA, and the PP; discussions include updates on the FCPP Section 7 consultation schedule as well as work being conducted for preparation of the NGS-KMC Project BA.• Reclamation sent out requests to State and Tribal agencies for species lists for areas affected by the proposed action; responses have been received from some of the agencies.
Reporting Period (March 2014 – September 2014) Accomplishments	<ul style="list-style-type: none">• Reclamation staff met with FWS, Navajo and Hopi biologists to follow-up on requests for species lists, provide background about the Project, and listen to their concerns. Field trips to both the NGS and Kayenta Mine have taken place.• Water and sediment sampling needed for the Ecological Risk Assessment (ERA) was conducted in July 2014.• There is ongoing coordination between the Biology and Water Resources subgroups to determine project impact areas.• AECOM has mapped species locations based upon input received thus far.
Next Quarter's Projected Work	<ul style="list-style-type: none">• AECOM will coordinate with Navajo, Hopi and FWS to fill any data gaps regarding species locations.• A joint Biology and Water Resources subgroup meeting is anticipated to be held to go over issues that relate to both resource areas.• The draft ERA will be made available for review.





NATIONAL HISTORIC PRESERVATION ACT	
Previous Work (Apr 2012-Feb 2014)	<ul style="list-style-type: none"> Reclamation staff initially met with the following organizations regarding the proposed project: AZ, NV, and UT State Historic Preservation Officers; Navajo Nation Cultural Resource Manager; Hopi Cultural Preservation Office and staff; Zuni cultural resources staff, PWCC, and SRP. Letters of interest for NHPA Section 106 consultation also were sent to several Paiute tribes located around NGS. Work on a Class I survey was initiated. Reclamation held a Cultural Resources Update Meeting in Flagstaff at the Museum of Northern Arizona on October 30, 2013. The purpose of this initial CRUM was to provide background information regarding Reclamation's Section 106 process for the project, and to seek input on the development of a Programmatic Agreement (PA) and other NHPA/106-related issues. A total of about 55 people attended: 30 invited participants and 25 members of the general public. Development of a PA is envisioned to address all actions associated with the NGS-KMC project. To collect required information for the PA, individual meetings were held with the Hopi, Navajo, Zuni, Bureau of Land Management (Arizona State office), the AZ, NV, and UT State Historic Preservation Offices, and Kaibab and Prescott National Forest archaeologist, PWCC, and SRP. Meeting/conference calls with SRP, Navajo and Hopi cultural resources staff regarding Class II (sample) survey and ethnographic surveys on KMC and coal-haul railroad; SRI has completed its Class II (sample) survey proposal, the purpose of which is to validate the data collected in the late 1960s and 1980s.
Reporting Period (March 2014 – September 2014) Accomplishments	<ul style="list-style-type: none"> A decision has been made to prepare two PAs—one on the Kayenta Mine, and one covering the NGS Area of Potential Effect (APE). Reclamation staff and SRI Foundation (Dave Cushman) have met several times with affected agencies and the PP to discuss work related to Section 106 compliance, and seek input on the draft Programmatic Agreements being prepared; A second CRUM was held May 15, 2014, again in Flagstaff at the Museum of Northern Arizona. A decision has been made that a Class II survey will not be conducted; a Data Quality Assessment Survey of the J21 West proposed mining area and a review of the Class I database will be conducted instead. Field work commenced in September 2014. Meetings were held regarding the Western Transmission System: with UT BLM archaeologists on the portion that goes through the Escalante-Staircase Wilderness, and with NPS cultural resources staff for the portion that passes through the Glen Canyon Recreation Area. Meetings have been held with Navajo and Hopi cultural staff regarding their respective Traditional Cultural Properties (TCP)/ethnographic studies.
Next Quarter's Projected Work	<ul style="list-style-type: none"> Drafts of the Kayenta Mine PA and NGS APE PA will be distributed for review and comment. The Data Quality Assessment Survey will be completed and data and recommendations incorporated into the Class I Overview. A contract will be issued by SRP for the Western Transmission System Class III survey. Contracts will be issued by SRP for the Zuni TCP Overview, Hopi TCP study, and NGS APE Overview Study. Reclamation cultural staff will invite NGOs to meet regarding their cultural resources concerns related to the NGS-KMC Project EIS. A third CRUM in Flagstaff will be scheduled.





List of frequently used acronyms:

AES	Arizona Ecological Services, FWS	SHPO	State Historic Preservation Officer
AGFD	Arizona Game and Fish Department	SRP	Salt River Project Agricultural Improvement and Power District
APE	Area of Potential Effect	TCP	traditional cultural property
AZ	Arizona	USGS	U.S. Geologic Survey, Department of the Interior
BIA	Bureau of Indian Affairs	UT	Utah
CAP	Central Arizona Project		
CRUM	Cultural Resources Update Meeting		
EIS	environmental impact statement		
EPRI	Electrical Power Research Institute		
ERA	ecological risk assessment		
FCPP	Four Corners Power Plant		
FWS	U.S. Fish and Wildlife Service, Department of the Interior		
HHRA	human health risk assessment		
ITCA	Inter Tribal Council of Arizona		
KCA	Key Cooperating Agency or Agencies (OSM and BIA)		
KMC	Kayenta Mine Complex		
LC	Lower Colorado		
MOU	Memorandum of Understanding		
NGS	Navajo Generating Station		
NHPA	National Historic Preservation Act		
NOI	Notice of Intent to Prepare an EIS		
NV	Nevada		
OSMRE	Office of Surface Mining Reclamation and Enforcement		
PA	Programmatic Agreement		
PP	Project Proponents (PWCC and SRP)		
PWCC	Peabody Western Coal Company		

